



For Release **October 20, 2014**

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City of Fredericksburg getting a solid return on incentives
Study shows that city gets \$8 in tax revenue for every \$1 paid out

FREDERICKSBURG – Fredericksburg’s business incentive program is providing a solid return on investment for the city and its taxpayers, a recent analysis shows.

The City of Fredericksburg has taken in about \$8 in tax revenues for every \$1 it has paid out to businesses participating in the incentive program since the program started in 2007. The 13 businesses in the program have been responsible for about 700 new jobs and capital investments of about \$41.3 million.

Those findings came about through a study of the City of Fredericksburg’s business incentive programs conducted this summer by the Department of Economic Development and Tourism. The results were presented to City Council during the recent two-day Council Retreat.

“We were very pleased with the results of this study,” said Karen Hedelt, Fredericksburg’s director of economic development and tourism. “The incentive program helped us recruit great businesses, generate new tax revenues and create new jobs. Incentives provide an excellent return on investment for city taxpayers.”

The city’s return on investment through the incentive program matches the goals of the Virginia Economic Development Partnership.

Assistant Economic Development Director Bill Freehling conducted the analysis, studying the tax revenue collected and incentive payments made to each company, starting when each business was accepted into the program.

The study found that the overall return on investment (ROI) ratio was 8.2. That means Fredericksburg has paid out just 12 percent of the revenue it has obtained from the businesses in the program.

The 13 businesses that were part of the incentive program at the time of the analysis this summer have generated \$9.31 million in tax revenues for the City of Fredericksburg since the program began. Cumulative incentive payouts total \$1.13 million. That leaves the city with a net gain of about \$8.18 million.

The 10 businesses in the Tourism Zone program have generated \$8.87 million in tax revenue. The businesses in this category have received approximately \$944,607 in incentive payouts. The ROI was 9.4.

The three businesses in the Technology Zone program have generated \$438,232 in cumulative tax revenue. Incentive pay for businesses in this category has totaled \$187,078 for a more-modest ROI of 2.3. Businesses in the Technology Zone program, however, produce high-paying jobs that are attractive to a community, and the people holding those jobs patronize and contribute to the success of Tourism Zone businesses.

The city's incentive program allows qualifying businesses to receive a reduction or waiver of business license taxes, performance grants on tax revenue generation, and reduction or waivers of permit fees. The level of incentives is tied largely to the amount of capital investments made and jobs created. There are minimum capital investment and employment standards that vary based on the type of business and the business location.

The term of each performance agreement varies. Tourism Zone businesses can qualify for a term of up to 10 years. Technology Zone businesses can qualify for a term of up to five years.

Full details of the program can be found at Fredericksburgva.com.

The city's incentive program is set up so that the business benefits only if it attains the thresholds negotiated in the performance agreement. If it achieves those thresholds, the business gets a percentage of its tax revenue back. If it doesn't reach those figures, the business doesn't qualify for incentive grants or tax reductions. The city does not make upfront payments but rather is in a position to gain new revenue and reimburse a portion of the revenue if the business thrives.

The 13 businesses that were part of the incentive program as of this summer were: AAA Mid-Atlantic, Barnes & Noble, Bavarian Chef, Capital Ale House, CBAI & Associates, Happy Clam, Hyatt Place, ILM Corp., the Inn at the Old Silk Mill, Kybecca, QRC Inc., Vivify Burger & Lounge and Wegmans.

Cogent Solutions and Sedona Taphouse have more recently joined the incentive program and have not yet received incentive payout.

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